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Judy Smith

STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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April 30, 2012

Honorable Dennis Phillips, Mayor
City of Kingsport
225 West Center Street
Kingsport, TN 37660

Dear Mayor Phillips:

This letter acknowledges receipt on April 26, 2012, of a request dated April 25, 2012 to review a plan of refunding (the "Plan") for a maximum issuance of \$10,950,000 General Obligation Refunding Bonds, Series 2012 (the "2012 Bonds"), to advance refund by competitive sale, an estimated:

- \$3,245,000 General Obligation Bonds, Series 2003 (the "2003 Bonds");
- \$1,170,000 General Obligation School Bonds, Series 2004 (the "2004 Bonds");
- \$2,440,000 Water and Sewer Revenue and Tax Bonds, Series 2003 (the "2003 Revenue Bonds"); and
- \$3,245,000 Water and Sewer Revenue and Tax Bonds, Series 2004 (the "2004 Revenue Bonds").

The 2003 Bonds, 2004 Bonds, 2003 Revenue Bonds, and the 2004 Revenue Bonds are collectively the "Refunded Bonds." The Plan assumes the 2012 Bonds will be sold at par due to the short-term nature of the deal. However, in the current market where premium bonds are attractive, a premium offer may create additional savings for the City. The City's financial advisor will assist the City in selecting the best structure.

Pursuant to the provisions of Title 9, Chapter 21, *Tennessee Code Annotated*, a Plan must be submitted to our Office for review prior to the adoption of a resolution by the governing body of a local government authorizing the issuance of refunding bonds secured, in whole or in part, by the full faith and credit and unlimited taxing power of the City. The information presented in the plan of refunding includes the assertions of the City and may not reflect either current market conditions or market conditions at the time of sale.

City's Proposed Refunding Objective

The City is issuing the 2012 Bonds for cost savings.



Compliance with the City's Debt Management Policy

The City provided a copy of its debt management policy. When the City submits Form CT-0253 within 45 days of issuance of the debt approved in this letter, the City must describe, in specifics, how the debt complies with its Debt Policy. If the current version of the Policy has already been filed with the Office, the City does not have to resubmit a copy of its Policy. The City's policy stated a 3.0% threshold of savings on a refunding to proceed. The proposed refunding estimates 5.81% savings.

Report of the Review of a Plan of Refunding

This letter, report, and the submitted plan of refunding are to be placed on the City's website.

The enclosed report does not constitute approval or disapproval for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the outstanding obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity.

This letter and the enclosed report do not address the compliance with federal tax regulations and are not to be relied upon for that purpose. The City should discuss these issues with a bond counsel.

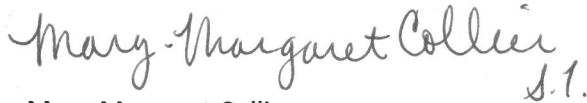
This report is effective for a period of one hundred and twenty (120) days. If the refunding has not been completed during this time, a supplemental plan of refunding must be submitted to this Office, at that time we will issue a report thereon pursuant to the statutes. In lieu of submitting a supplemental plan, a statement may be submitted to our Office after the 120-day period has elapsed stating that the information contained in the current plan of refunding remains valid. Such statement must be submitted by either the Chief Executive Officer or the Chief Financial Officer of the local government. We will acknowledge receipt of such statement and will issue our letter confirming that this refunding report remains valid for an additional 120-day period. However, with regard to the report currently being issued by this Office, during the initial 120-day period or any subsequent 120-day period no refunding reports will be issued relating to the debt obligations indicated herein as being refunded unless the Chief Executive Officer or the Chief Financial Officer notifies our Office that the plan of refunding which has been submitted is no longer valid.

We recognize that the information provided in the plan submitted to our Office is based on preliminary analysis and estimates, and that actual results will be determined by market conditions at the time of sale of the debt obligations. However, if it is determined prior to the issuance of these obligations that the actual results will be significantly different from the information provided in the plan which has been submitted, and the local government determines to proceed with the issue, our Office should subsequently be notified by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences, and that the local government was aware of the differences and determined to proceed with the issuance of the debt obligations. Notification to our Office will be necessary only if there is an increase or decrease of greater than fifteen percent (15%) in any of the following: (1) the principal amount of the debt obligations issued; (2) the costs of issuance; (3) the cumulative savings or loss with regard to any refunding proposal. We consider this notification necessary to insure that this Office and officials of the local government are aware of any significant changes that occur with regard to the issuance of the proposed indebtedness.

Public Debt Entity Report

Enclosed is a revised Form CT-0253 - Report on Debt Obligation. The Form CT-0253 must be filed with the governing body of the public entity issuing the Debt not later than forty-five (45) days following the issuance or execution of a debt obligation by or on behalf of any public entity, with a copy (including attachments, if any) filed with the Director of the Office of State and Local Finance by email to StateandLocalFinance.PublicDebtForm@cot.tn.gov . No public entity may enter into additional debt if it has failed to file the Report on Debt Obligation.

Sincerely,

A handwritten signature in cursive script that reads "Mary-Margaret Collier" followed by a small "S.L." to the right.

Mary-Margaret Collier
Director of the Office of State & Local Finance

Cc: Mr. Dennis Dycus, Director of Municipal Audit, COT
Mr. James Demming, CFO, City of Kingsport
Mr. Rick Dulaney, Raymond James / Morgan Keegan
Ms. Cindy Barnett, Esq., Adams and Reece

Enclosures (2): Report of the Director of the Office of State & Local Finance
State Form CT-0253, Report on Debt Obligation.

**REPORT OF THE DIRECTOR OF THE OFFICE OF STATE AND LOCAL FINANCE
CITY OF KINSPORT, TENNESSEE
CONCERNING THE PROPOSED ISSUANCE OF ITS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2012**

The City of Kingsport (the "City") submitted a plan of refunding (the "Plan"), as required by Tennessee Code Annotated Section 9-21-903 for a maximum issuance of \$10,950,000 General Obligation Refunding Bonds, Series 2012 (the "2012 Bonds"), to advance refund by competitive sale, an estimated:

- \$3,245,000 General Obligation Bonds, Series 2003 (the "2003 Bonds");
- \$1,170,000 General Obligation School Bonds, Series 2004 (the "2004 Bonds");
- \$2,440,000 Water and Sewer Revenue and Tax Bonds, Series 2003 (the "2003 Revenue Bonds"); and
- \$3,245,000 Water and Sewer Revenue and Tax Bonds, Series 2004 (the "2004 Revenue Bonds").

The 2003 Bonds, 2004 Bonds, 2003 Revenue Bonds, and the 2004 Revenue Bonds are collectively the "Refunded Bonds." The Plan was prepared with the assistance of the City's Financial Advisor, Raymond James / Morgan Keegan.

City's Proposed Refunding Objective

The City is issuing the 2012 Bonds for cost savings.

Compliance with the City's Debt Management Policy

The City provided a copy of its debt management policy. The Plan appears to meet the requirements of the policy. The City's policy stated a 3.0% threshold of savings on a refunding to proceed. The proposed refunding estimates 5.81% savings.

Refunding Analysis

- The results for the refunding are based on the assumption that \$10,800,000 of 2012 Bonds will be sold by competitive sale and priced at par.
- Estimated savings for the refunding is \$586,861 or 5.81% of the \$10,100,000 refunded principal (see page 1 of the Plan).
- The estimated savings are generated by reducing the average coupon of the Refunded Bonds from 4.19% to 1.17% for the 2012 Bonds. The refunding does not extend the maturity of the debt (see pages 1 & 4 of the Plan).
- The estimated cost of issuance of the 2012 Bonds is \$145,632 or \$13.48 per \$1,000 par amount of the 2012 Bonds. Included in the cost of issuance is an estimated underwriter's discount of \$70,200 (see page 6 of the Plan).

This report of the Office of State and Local Finance does not constitute approval or disapproval by the Office for the proposed plan or a determination that a refunding is advantageous or necessary nor that any of the refunded obligations should be called for redemption on the first or any subsequent available redemption date or remain outstanding until their respective dates of maturity. This report is based on information as presented in the Plan by the City. The assumptions included in the City's Plan may not reflect either current market conditions or market conditions at the time of sale.

The City has reported Raymond James / Morgan Keegan as its Financial Advisor. Financial advisors have a fiduciary responsibility to you, the issuer. Underwriters have no fiduciary responsibility to you. They represent the interests of their firm.

This report applies only to the transaction described. Should the District decide to refund less than \$10,100,000 of the Refunded Bonds and to refund the remainder at a later date, it must submit another request for a report to refund the bonds at that time.



Mary-Margaret Collier
Director of the Office of State and Local Finance
Date: April 30, 2012